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Australia

Cotton and Products

Annual

2008

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Report Highlights:

Production and exports of Australian cotton are forecast to increase sharply in 2008/09 driven by sharp increases in planted area. Despite this forecast, production for 2008/09 is expected to remain under the ten year average for Australian cotton production.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK

General

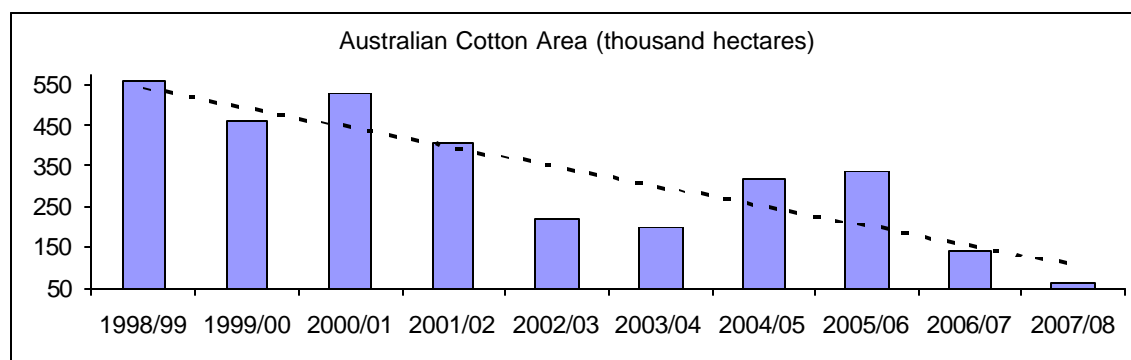
Production and exports of Australian cotton are forecast to increase sharply in 2008/09 driven by sharp increases in planted area. Despite this forecast, post expects production for 2008/09 to remain under the ten year average for Australian cotton production.

Excellent rainfall in key regions has greatly improved the outlook for irrigation water supplies in the lead up to the 2008/09 cotton season. Post has assumed average weather conditions in the lead up to planting the 2008/09 crop in October and November.

At time of writing this report, the 2007/08 harvest has already begun in most cotton growing regions and will likely finish ahead of schedule due to the very small size of the crop. Post has revised its estimate for the 2007/08 crop downward making it the smallest crop in roughly 25 years.

Area

The area planted to cotton is forecast to increase sharply in 2008/09 to 190,000 hectares and is expected to account for all of the increase in production. Post has anticipated a yield slightly above the 10 year average and so has not used yield variance to drive any increase in production.



Source: ABARE data

Production

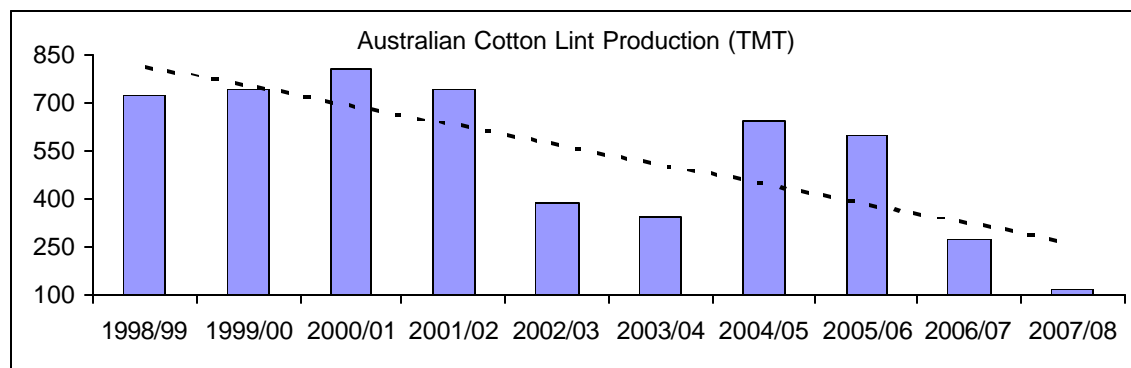
Production of cotton in Australia for 2008/09 is forecast to increase sharply to 1.5 million bales. Despite the increase, the forecast remains well under the ten year average of 2.3 million bales. Long running and severe drought has constrained production to historically low levels since 2002/03.

Some forecasts remain more buoyant than that of post, reaching 2.0 million bales. However, while production of this level is possible, it would require above average rainfall to achieve.

ABARE has reported an improvement in cotton returns for 2008/09 driven by stronger world prices as global demand remains stronger than supply.

Post has revised the projected estimate for 2007/08 cotton production downward slightly to just over 0.5 million bales, in line with industry estimates. Poor planted area and some crop

loss due to flooding and poorly timed rainfall saw production fall to its lowest level in 25 years according to industry sources.

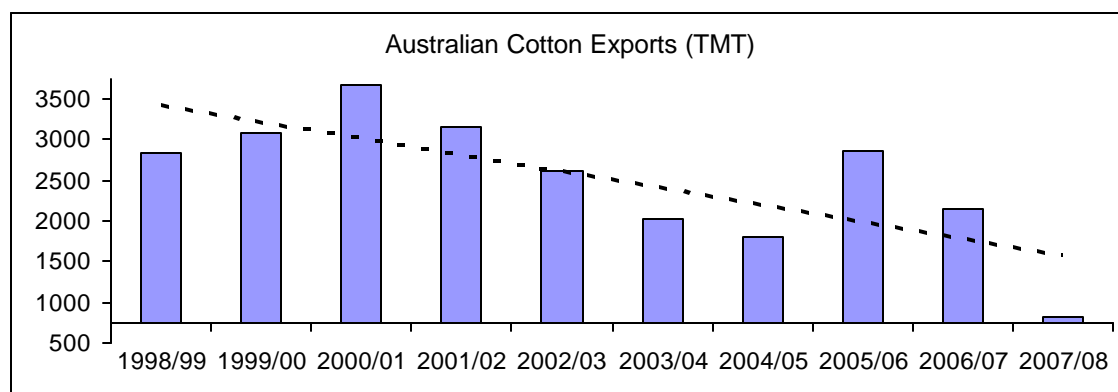


Source: ABARE data

Exports

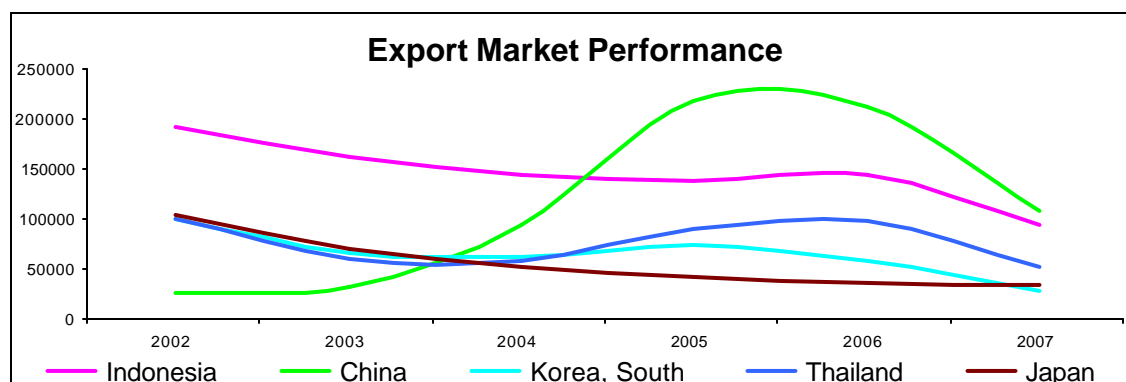
Exports of cotton for 2008/09 are forecast to increase to 1.3 million bales, up from the 1.0 million bales estimated for the previous year. Traditionally, cotton is processed and exported the year following its harvest, however with dramatically lower production since 2002/03, this is not always the case. Post advises that there is likely to be some lag between increased production and increased exports.

Despite this sharp increase, post advises that this forecast remains well below the ten year average of 2.5 million bales. Post advises that cotton production may take several years to recover to levels similar to those achieved prior to the drought.



Source: ABARE data

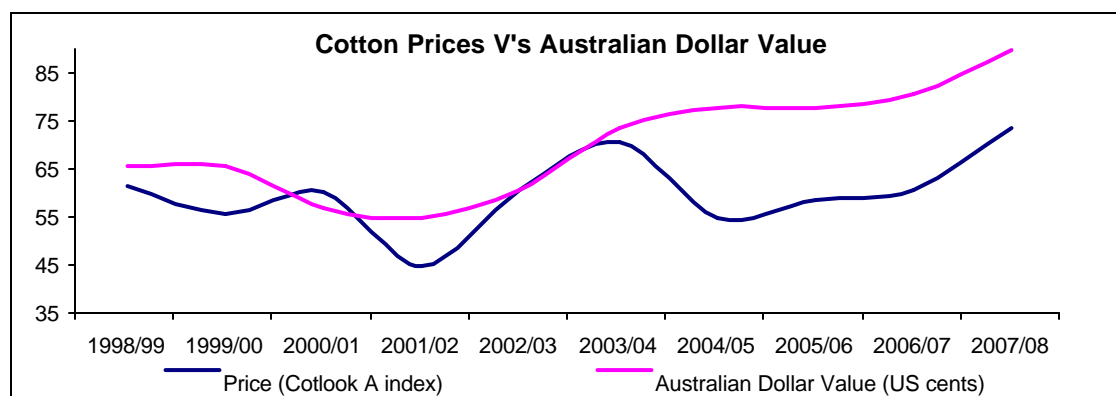
Total exports of Australian cotton have fallen significantly since the beginning of the drought in 2002/03. However, despite this decline, exports to China over the past five years have increased. China has progressed from Australia's fifth largest export market to the largest in less than three years. Post anticipates that this market will continue to take a greater share of Australian cotton and will likely absorb increases in production for the foreseeable future.



Source: World Trade Atlas

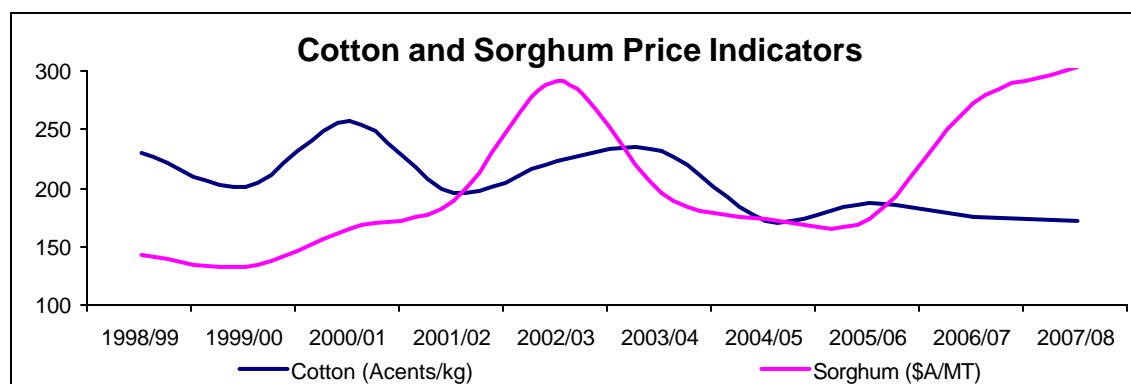
Pricing

Post notes with interest the lack of confidence among cotton growers regarding the improved world cotton price. Of particular concern is the rise in the value of the Australian dollar which has been credited with dissipating the effects of higher world commodity prices. Many agricultural industries in Australia have failed to realize the benefits of higher world commodity prices due to the strengthening of the Australian dollar. Cotton is an example of this with the graph below showing increases in the Australian dollar moving ahead of increases in cotton prices.



Source: ABARE data

Also detracting from the improvement in global prices is the relative increase in the price of domestic feed grains in Australia. Industry sources are concerned that cotton may not be as competitive for land area as it has in the past. Some cotton regions will likely experience significant competition for resources from other crops such as sorghum. The graph below shows the relative increase in the value of grain sorghum compared with cotton.



Source: ABARE data

SECTION TWO: STATISTICAL TABLES

PSD Table Cotton										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		08/2006	08/2006		08/2007	08/2007		08/2008	08/2008	MM/YYYY
Area Planted	0	0	0	0	0	0	0	0	0	(HECTARES)
Area Harvested	145	143	144	75	100	63	0	0	190	(HECTARES)
Beginning Stocks	1938	2060	1938	1179	1080	1179	604	800	729	1000 480 lb. Bales
Production	1350	1100	1350	600	700	525	0	0	1500	1000 480 lb. Bales
Imports	0	0	0	0	0	0	0	0	0	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0	0	0	0	0	0	1000 480 lb. Bales
Total Supply	3288	3160	3288	1779	1780	1704	604	800	2229	1000 480 lb. Bales
Exports	2129	2100	2129	1200	1000	1000	0	0	1300	1000 480 lb. Bales
Use	55	55	55	50	55	50	0	0	50	1000 480 lb. Bales
Loss	-75	-75	-75	-75	-75	-75	0	0	-75	1000 480 lb. Bales
Total Dom. Cons.	-20	-20	-20	-25	-20	-25	0	0	-25	1000 480 lb. Bales
Ending Stocks	1179	1080	1179	604	800	729	0	0	954	1000 480 lb. Bales
Total Distribution	3288	3160	3288	1779	1780	1704	0	0	2229	1000 480 lb. Bales
Stock to Use %	53.98	50.12	53.98	48.32	75.83	69.43	0	0	70.67	(PERCENT)
Yield	2027	1675	2041	1742	1524	1814	0	0	1719	(KG/HA)

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The reports listed below can all be downloaded from the FAS website at:

<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS8019	Draft IRA for Stone Fruit from the US Released for Comment	04/29/08
AS8017	Stone Fruit Annual	04/11/08
AS8016	Pork Safeguard: Productivity Commission Final Report	04/07/08
AS8015	Sugar Annual	04/08/08
AS8014	Grain & Feed Annual	03/28/08
AS8012	Livestock Semi-Annual	03/20/08
AS8011	Commencement of IRA for U.S. Apples Announced	03/19/08
AS8010	Wheat Industry Export Group Discussion Paper Released	03/18/08
AS8009	Call for Comments on Quarantine & Biosecurity Review	03/17/08
AS8008	Commencement of IRA for Stone Fruit Announced	03/14/08
AS8006	Draft Wheat Export Marketing Bill Released	03/06/08